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No. 1613/66

25 October 1966

Soviet Aid to and Presence in Iraq

1. Iraq and the USSR continue to maintain the "correct" posture that has characterized their relations for the past two years. A major new arms agreement concluded in May 1966 includes provisions for delivery of modern equipment not previously sold to Iraq, but the size and terms of the agreement conform generally to the established pattern of Soviet arms sales to Iraq. As a result of the new agreement, however, Iraq will pay the USSR almost \$31 million for arms in 1966, compared with about \$22 million paid in 1965 and about \$17 million that otherwise would have been due in 1966.

2. Although work on economic assistance projects has continued, Iraq apparently has drawn on Soviet economic credits at the annual rate of only about \$8 million in 1965 and 1966, compared with utilization of about \$35 million in 1963 and \$23 million in 1964. The value of Iraqi trade with the USSR was greater in 1965 than in 1964 but remained below the peak shares registered in 1963. Official visitors on both sides were somewhat higher ranking in 1965 than in 1964, but such exchanges have received relatively low-key treatment and apparently have not resulted in any new initiatives other than the arms agreement.

3. The arms agreement negotiated in Moscow by Arif, who subsequently became president of Iraq, is the largest single pact in the nine-year history of Soviet

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military sales to Baghdad. During 1966-70, the USSR will deliver equipment valued at \$178 million, for which the Iraqis will pay a total of \$119 million, including \$14 million to be paid this year. The value of deliveries in 1966-68 will average approximately \$50 million annually, with a balance of only about \$28 million remaining to be delivered in 1969 and 1970. Although the annual value of deliveries has fluctuated in past years, the \$50 million average has prevailed since the first agreement was concluded in late 1958. As the arms being sold have progressed from obsolescent Stalin tanks to sophisticated missile-bearing fighter-bombers and patrol boats, the discount from list price has dwindled from two thirds to one third. Concurrently, however, the repayment period has been extended from the seven-year terms of the 1958 agreement to a ten-year repayment period for most of the items included in the 1966 pact.

4. Despite large oil revenues (estimated at over \$385 million for 1966), Iraq suffers from a chronic shortage of cash and probably has begun to find arms payments increasingly burdensome. The \$22 million total paid to the USSR in 1965 included the final installment on the 1958 agreement, and installments plus interest on remaining agreements were due to drop to \$17 million in 1966. Because of the new pact, however, obligations now total \$31 million in 1966 and \$29 million in 1967 and are approximately equal to oil revenues for a full month. Iraq's cash position is so stringent that bank deposits of \$15 million were withdrawn from the State Bank of the USSR in mid-September to meet obligations in the West that were due before receipt of the quarterly oil revenue payment that arrived in early October. The \$14-million payment on the new arms agreement that had to be made to the USSR by 1 October 1966 probably helped make this action necessary.

5. Equipment to be provided under the 1966 agreement includes a number of items that will be new to the Iraqi armed forces. Equipment ordered by the air force includes 32 SU-7 (Fitter) fighter-bombers and two trainers of the same type. The first deliveries of Fitters to non-Communist countries recently have been made to the United Arab Republic. The air force also

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expects to receive 16 more MIG-21 jet fighters, one MIG-21 trainer, and two AN-12B assault transports. The Iraqi Navy will receive eight Komar-class guided missile patrol boats, a Petya-class submarine chaser, and eight minesweepers--all new items in the Iraqi inventory--which will substantially augment naval capabilities. Army purchases include 105 T-55 medium tanks, 20 radar-directed antiaircraft guns, and assorted radar equipment.

6. Outside the sphere of military aid, Iraqi-Soviet relations have undergone few notable developments. The Baghdad-Basra railway, which has accounted for about \$45 million out of the \$110 million drawn by Iraq against Soviet economic credits, is almost completed. Several other major Soviet projects were canceled or suspended following the downfall of the Qasim regime, and only relatively minor undertakings presently are under way. Although announcements, from both Baghdad and Moscow, continue to emphasize that the Soviets have agreed "in principle" to aid in construction of a major dam on the Euphrates River, action may be postponed indefinitely. The Soviets have delayed the start of actual construction in either Iraq or Syria and are pressing for a trilateral riparian agreement with Turkey. A Soviet team recently visited Baghdad to renegotiate project protocols and expedite work on current projects, but the rate of credit utilization is not likely to accelerate rapidly in the next few months.

7. Soviet deliveries of goods under economic credits have helped to increase the value of Iraqi imports from the USSR from \$21 million in 1961 to \$33 million in 1965. In the latter year, however, the USSR provided only 7 percent of total Iraqi imports--slightly less than the 8 percent peak achieved in 1963. Soviet imports from Iraq totaled just under \$4 million in 1965--double the 1961 level--accounting for 7 percent of Iraq's nonpetroleum exports. The 1965 figures were substantially higher than 1964 shipments but trailed the record 1963 levels of \$5.6 million in value and 12 percent in share terms.

8. There are currently about 500 Soviet economic technicians in Iraq, most of whom are working on a

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number of Soviet development projects, e.g., a pharmaceutical plant, an electrical equipment plant, a glassware factory, several textile factories, and the Baghdad-Basra railroad. Although there has been a gradual increase in the number of Soviet economic technicians over the past year as construction work progressed on Soviet aid projects, the number is well below the 1,000 Soviet technicians present in Iraq during the Qasim regime.

9. The size of the Soviet military technical assistance group has remained fairly constant over the past several years. There now are about 65 Soviet military technicians in Iraq. These personnel are attached to various Iraqi military installations and are providing on-the-job training as well as maintenance services for Soviet-supplied equipment. Additional Soviet military specialists, however, probably will be arriving over the next year to instruct Iraqis on the new and more sophisticated naval and air equipment ordered last May.

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